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DHAHRAN SENDS, PASS TO NEA/ARP JOSHUA HARRIS

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TAGS: [ECON](#) [EMIN](#) [PGOV](#) [SA](#)

SUBJECT: SAUDI ARABIA'S THIRD PILLAR: MINING

REF: 08 RIYADH 1302

Classified By: CG Joseph Kenny for Reasons 1.4 (b), (d)

(U) Key Points:

-- Saudi Arabia aims to be the third largest phosphate rock producer in the world by 2020.

-- Plans for a \$10 billion aluminum smelter in Ras al-Zour have been delayed after Rio Tinto Alcan pulled out.

-- U.S. firm Alcoa has requested USG advocacy for obtaining a concession of subsidized gas feedstock to make it worthwhile to bid on the aluminum smelter project.

-- A 1,500km rail link between mines in northwestern Saudi Arabia and Ras al-Zour in the east is nearly complete.

(C) Comment:

-- The Saudi Arabian Mining Company, known as Maaden, is leading the Kingdom's best attempt to diversify away from purely petroleum-based industries. Although the energy-intensive aluminum smelting process benefits from access to cheap gas feedstock; the aluminum market is not inextricably linked to oil prices -) unlike petrochemicals. Maaden and other industry insiders have made it clear that an aluminum smelter will eventually be established at Ras al-Zour; however, whether the partnering company is Chinese, Russian, or U.S. remains to be seen. Similar to Saudi Arabia's other two pillars (petroleum and petrochemicals), mining is not labor intensive and will likely not be a significant job source.

End key points and comment.

¶1. (SBU) RAS AL-ZOUR, MINING CITY. On January 20, Dhahran Consul General Kenny, EconOff and Commercial Specialist visited Ras al-Zour) a planned multi-billion dollar industrial complex and residential city) 70 km north of Jubail along the Persian Gulf coast. Ras al-Zour, dubbed by Saudi government planners the Minerals Industrial City, is located more than 1,000 kilometers from its sources of bauxite and phosphate (Reftel) in central and northwestern Saudi Arabia. The site was chosen over a western Red Sea port location because of the Gulf's relative proximity and lower transportation costs to Asian markets. The president of the Maaden Phosphate Company, Abdulaziz al-Harbi, provided the following update on construction at Ras al-Zour.

¶2. (C) ALUMINUM SMELTER DELAYED. Al-Harbi confirmed that Rio Tinto Alcan had pulled out of a deal with Maaden to build a 740,000 ton aluminum smelter at Ras al-Zour. However, he was confident that another partner will be identified shortly and that the aluminum project would only be delayed by two or three years. (Note. In a separate, unrelated meeting on Dec 3, 2008 Khalid al-Fuhaid (please protect), the president of Midad Holding company and a mining industry insider, told EconOff that Maaden will eventually build a smelter at Ras al-Zour, but it could take "1,000 years." End note.) Until a new partner is identified, no construction or other

physical work at the site for the aluminum smelter will begin.

13. (SBU) PHOSPHATE BACK ON SCHEDULE. Al-Harbi said that the phosphate processing facilities at Ras al-Zour will continue as planned and will not be affected by the delayed aluminum project. After some initial delays in the construction of the phosphate fertilizer processing facilities and the completion of the three berth port, Ras al-Zour is largely back on track. The mines in al-Jalamid should be producing phosphate rock by the end of 2009 and the processing facilities that produce the phosphate-based fertilizer should be operational by September 2010. By 2011 Maaden will be the 7th largest producer of phosphate rock in the world with a plan to reach the top three by 2020. At annual production levels of nearly 6 million tons of phosphate rock, Saudi Arabia's phosphate industry can sustain about 30 years of development before fully depleting known reserves) about half the industry standard. However, Maaden expects new discoveries to increase the industry's lifespan to 150 years.

14. (SBU) MORE THAN JUST FERTILIZER. Al-Harbi said that the Saudi phosphate rock also has low levels of both radiation and heavy metals, making it of an especially high quality. In fact, the phosphate is of such high quality that researchers are looking into mixing the gypsum waste from the phosphate fertilizer process with red mud waste from the aluminum smelting process to create a soil that can be used for agricultural purposes. Also, the chemical reaction created by converting sulfur to sulfuric acid creates enough heat to generate more electricity and water than is actually consumed by the phosphate processing facility. The expected ten megawatts of excess electricity will be sold to the Saudi Consolidated Electric Company (SCECO) and the excess water will be pumped to Riyadh via Hail.

15. (SBU) ALL ABOARD. The 1,500 kilometer, multi-billion dollar rail link connecting phosphate mines in the north, bauxite mines in the center, and Ras al-Zour in the east is "about 80% complete," according to the president of Maaden Phosphate. Considering the harsh desert environment and difficulty of keeping the track clear of shifting sand dunes, this has been an enormous engineering challenge. The railway ties, made of concrete as opposed to wood, are manufactured in Saudi Arabia. Al-Harbi said that possible spurs south from Ras al-Zour to Jubail and Dammam may be built to move freight and eventually passengers between the urban and industrial centers. He even discussed long-term ideas to build an additional spur north from al-Jalamid into Iraq to import Iraqi phosphate for processing at Ras al-Zour.

16. (C) MAADEN LACKS "CAPABILITIES." In a revealing comment, al-Harbi admitted that Maaden was struggling to fill key positions throughout the company and that the organization is lacking "capabilities." This admission corroborates opinions shared by other industry insiders that have interacted with Maaden. In fact, a Saudi businessman familiar to the mining industry said that one of the primary reasons for Rio Tinto Alcan pulling out of Ras al-Zour was the perceived incompetence of their Maaden counterparts. At one point he said, "Maaden is filled with stupid!" Since then other Consulate Dhahran contacts have made similar comments to EconOff.

17. (SBU) IS MINING THE THIRD PILLAR? In a January 19 Saudi Gazette article Sultan bin Jamal Shawli, deputy minister for mineral resources, said that total investment in the Saudi mining sector is SR40 billion (\$10.67 billion). Also, many open source reports have cited Saudi Arabia's implementation of the Mining Investment Code in April 2004 as a major impetus for investment by improving transparency and guaranteeing equal legal protections for foreign and Saudi companies. An unfortunate reality for the mining industry - like the other two pillars of petroleum and petrochemicals) is that it is not labor intensive. Without deep vertical integration into downstream activities, this budding industry will absorb only a fraction of the hundreds of thousands of Saudi jobseekers.

18. (C) ALCOA LOOKS TO SAUDI ARABIA. The president of Midad Holding Company, Khalid al-Fuhaid, told EconOff that he is working with Maaden and Alcoa to build an aluminum smelter in Saudi Arabia, though not necessarily at Ras al-Zour. Alcoa has requested that the Embassy advocate to the Saudi government on their behalf to secure a subsidized concession of gas feedstock from the Ministry of Petroleum and Minerals. This feedstock is essential to producing energy-intensive aluminum profitably.

(Approved: JKenny)

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